

SUBJECT
NOTE OF A MEETING HELD AT 10 DOWNING STREET ON THURSDAY 19 NOVEMBER 1981 AT 6.45PM
TO DISCUSS PUBLIC EXPENDITURE ON DEFENCE

cc Master Set

Present

The Prime Minister
Chancellor of the Exchequer
Secretary of State for Defence
Chief Secretary, Treasury

Sir Robert Armstrong
Mr P L Gregson

The meeting had before it the annex on Defence Expenditure to the Home Secretary's draft paper on the work of MISC 62 circulated by the Prime Minister's Private Secretary on 13 November and the Secretary of State for Defence's minute to the Prime Minister of 18 November.

The Chief Secretary, Treasury said that the question at issue was how to translate realistically into cash the decisions which the Cabinet had taken on defence in June. The Ministry of Defence had argued that there were special price factors, but the Treasury had not been able to find evidence to justify this. The Treasury had however accepted that there should be some transitional adjustment to ease the pressure on the defence budget as the Government's plans for re-shaping the defence programme were put into effect. MISC 62 had therefore proposed that there should be additions in 1981-82 of £275m and further additions in the three succeeding years of £250m, £250m and £225m respectively.

The Secretary of State for Defence said that the MoD was in the midst of unprecedented radical change - for example the CDS reorganisation, the cutting out of three of the five dockyards, the reduction in civilian numbers, and putting the defence budget onto a cash basis. It would be damaging to disrupt that process by a further round of cuts. He wanted to see a realistic cash provision for the defence programme over the survey period which would provide a basis for firm planning and tight control. The additional provision which he was seeking was necessary if he was not to be forced into some major changes in the defence programme, additional to those agreed last June, of a kind which were unlikely to be politically acceptable.

The Prime Minister, summing up the discussion, said that, at this stage, it was not possible to reach agreement. A major consideration was the difficulty of

finding an adequate explanation and justification for the higher prices of defence equipment. This should be investigated urgently by the Cabinet Office in consultation with the Treasury and the Ministry of Defence.

The meeting -

took note of the Prime Minister's summing up.

20 November 1981